

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Hudson Township	County Mackinac
Audit Date 3/31/06	Opinion Date 6/2/06	Date Accountant Report Submitted to State: 8/23/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☒ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address 16978 S. Riley Avenue	City Kincheloe	State MI	ZIP 49788
Accountant Signature <i>Anderson Tackman & Co PLC</i>		Date 8/23/06	

HUDSON TOWNSHIP

BASIC FINANCIAL STATEMENTS

March 31, 2006

HUDSON TOWNSHIP

ELECTED OFFICIALS

TOWNSHIP SUPERVISOR

ALLYN GARAVAGLIA

TOWNSHIP TREASURER

DAVID ALBRECHT

TOWNSHIP CLERK

BARBARA KERRIDGE

TOWNSHIP TRUSTEE

DAVE LIVERMORE

TOWNSHIP TRUSTEE

JERRY DEUSHA

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
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DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Members of the Board
Hudson Township
Hudson, Michigan 49793

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hudson Township, Michigan as of and for the year ended March 31, 2006, which collectively comprises the Township's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as described in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 5 to the financial statements, management has not recorded certain general infrastructure and capital assets, and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general infrastructure and capital assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the Hudson Township, as of March 31, 2006, and the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Hudson Township, as of March 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Hudson Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments as of April 1, 2005. This results in a change in the format and content of the basic financial statements.

The Township has not presented the Management’s Discussion and Analysis information that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hudson Township basic financial statements. The individual major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

June 2, 2006

Basic Financial Statements

**Statement of Net Assets
March 31, 2006**

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash & Investments - Unrestricted	\$ 202,102
Taxes Receivable	<u>23,366</u>
 TOTAL ASSETS	 <u>\$ 225,468</u>
 LIABILITIES AND NET ASSETS:	
LIABILITIES:	
Accounts Payable	30,268
Accrued Liabilities	<u>1,451</u>
 TOTAL LIABILITIES	 <u>31,719</u>
 NET ASSETS:	
Unrestricted	<u>193,749</u>
 TOTAL NET ASSETS	 <u>\$ 193,749</u>

Hudson Township, Michigan

Statement of Activities For the Year Ended March 31, 2006

Functions/Programs	Expenses	Program Revenues			Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities:					
General Government	\$ 78,975	\$ 2,149	\$ -	\$ 29,678	\$ (47,148)
Public Safety	37,705	-	-	-	(37,705)
Public Works	91,143	-	-	-	(91,143)
Health & Welfare	3,248	-	-	-	(3,248)
Parks & Recreation	877	1,165	-	-	288
Other Expenditures	1,884	-	-	-	(1,884)
Total Governmental Activities	<u>\$ 213,832</u>	<u>\$ 3,314</u>	<u>\$ -</u>	<u>\$ 29,678</u>	(180,840)
General Revenues:					
Taxes					172,067
State Revenue Sharing					14,526
Other					11,222
Investment Earnings (Loss)					<u>3,258</u>
Total General Revenues					<u>201,073</u>
ChangeS in Net Assets					20,233
Net Assets - Beginning					<u>173,516</u>
Net Assets - Ending					<u>\$ 193,749</u>

See accompany notes to financial statements.

Hudson Township, Michigan**Balance Sheet
Governmental Funds
March 31, 2006**

	General	Special Revenue Funds		Total Governmental Funds
		Road Fund	Fire Fund	
ASSETS:				
Cash & Equivalents	\$ 61,505	\$ 34,395	\$ 106,202	\$ 202,102
Taxes Receivable	5,397	10,787	7,182	23,366
TOTAL ASSETS	\$ 66,902	\$ 45,182	\$ 113,384	\$ 225,468
LIABILITIES:				
Accounts Payable	\$ -	\$ -	\$ 30,268	\$ 30,268
Accrued Liabilities	1,451	-	-	1,451
TOTAL LIABILITIES	1,451	-	30,268	31,719
FUND BALANCES:				
Unreserved	65,451	45,182	83,116	193,749
TOTAL FUND BALANCES	65,451	45,182	83,116	193,749
TOTAL LIABILITIES AND FUND BALANCES	\$ 66,902	\$ 45,182	\$ 113,384	
Net assets of governmental activities				\$ 193,749

Hudson Township, Michigan

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended March 31, 2006

	Special Revenue Funds			Totals
	General	Road Fund	Fire Fund	Governmental Funds
REVENUES:				
Taxes	\$ 76,439	\$ 57,370	\$ 38,258	\$ 172,067
License & Permits	1,785	-	-	1,785
State Sources	14,526	-	29,678	44,204
Charges for Services	1,529	-	-	1,529
Interest & Rentals	1,871	577	1,435	3,883
Other Revenue	9,321	1,276	-	10,597
TOTAL REVENUES	105,471	59,223	69,371	234,065
EXPENDITURES:				
General Government	78,975	-	-	78,975
Public Safety	2,970	-	34,735	37,705
Public Works	35,842	55,301	-	91,143
Health & Welfare	3,248	-	-	3,248
Parks & Recreation	877	-	-	877
Other Expenditures	1,884	-	-	1,884
TOTAL EXPENDITURES	123,796	55,301	34,735	213,832
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(18,325)	3,922	34,636	20,233
FUND BALANCES, APRIL 1	83,776	41,260	48,480	173,516
FUND BALANCES, MARCH 31	\$ 65,451	\$ 45,182	\$ 83,116	\$ 193,749

Statement of Fiduciary Net Assets
Fiduciary Funds
March 31, 2006

	<u>Current Tax Collection Fund</u>
ASSETS:	
Cash & Cash Equivalents	<u>\$ 65,119</u>
 TOTAL ASSETS	 <u><u>\$ 65,119</u></u>
 LIABILITIES:	
Due to Others	<u>\$ 65,119</u>
 TOTAL LIABILITIES	 <u><u>\$ 65,119</u></u>

Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Hudson Township conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the Township:

A – Financial Reporting Entity:

Hudson Township ("The Township") is a regular law Michigan township located in the eastern portion of Michigan's Upper Peninsula.

The Township operates under an elected Board of Trustees and provides services to its residents in many areas including fire protection, community enrichment and development, and health services.

The Township, for financial purposes, includes all of the funds and account groups relevant to the operations of Hudson Township. The financial statements herein do not include agencies which have been formed under applicable State laws or separate and distinct units of government apart from Hudson Township.

B – Government-Wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable – Current or Property Taxes

The Hudson Township property tax is levied on each December 1st on the taxable valuation of property (as defined by State statutes) located in the Township of Hudson as of the preceding December 31st.

The 2005 taxable valuation of Hudson Township totaled \$15,033,529 of which ad valorem taxes levied consisted of 1.4675 mills for the Township operating, 2.9331 mills for roads, and 1.9529 for fire operating. These amounts are recognized in the respective General and Special Revenue Funds financial statements as taxes receivable – current or as tax revenue.

The Township reports the following major governmental funds:

General Fund

This is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Road Fund

This fund accounts for the repair and maintenance of Township roads.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fire Fund

This fund accounts for fire protection to residences of the Township.

Additionally, the Township reports the following funds:

Agency Funds

Agency Funds are used to account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

All other revenue items are considered to be available only when cash is received by the government.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's tax collection function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include charges to customers or applicants for goods, services, or privileges provided. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

D - Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand and demand deposits. Deposits are recorded at cost.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.”

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – The Township Board created a budget for fiscal year 2006.

Budgets and Budgetary Control – The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Each March, after receiving input from the individual departments, the Board prepares a proposed operating budget for the fiscal period commencing April 1 and lapses on March 31. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to April 1, the budget is legally enacted through a resolution passed by the Township Board.
- d. Budgetary control is exercised at the departmental level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the Board of Trustees. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The Township does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Board of Trustees during the year. Individual amendments were not material in relation to the original appropriations, which were amended. The modified accrual basis of accounting is used for budgetary purposes.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

The General Fund budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 (the Budgeting Act) requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General fund was modified throughout the year through various budget amendments.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end, the Township's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>
Cash and Cash Equivalents	\$ 202,102	65,119
Total	<u>\$ 202,102</u>	<u>\$ 65,119</u>

The Township's deposits are located in one local financial institution. Deposits are carried at cost.

	<u>Insured</u>	<u>Uninsured</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Deposits:				
Checking and Savings	\$ 129,666	\$ 137,555	\$ 267,221	\$ 267,221

Investment and Deposit Risk

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The Township's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing rates.

Credit risk. The Township's policy limits investments in bonds, bills, or notes of the United States; certificates of deposits; commercial paper rated prime 1 or prime 2, maturing 270 days or less; and repurchase agreements consisting of the above instruments. The Township has no investments for which ratings are required.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year end, \$137,555 of the Township's bank balance of \$267,221 was exposed to credit risk because it was uninsured and uncollateralized.

Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the Township to deposit and invest in one or more of the following:

- a. Bond, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Banker's acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The Township's deposits are in accordance with statutory authority.

NOTE 4 - RECEIVABLES

Receivables as of year end for the government's individual major and nonmajor funds are as follows:

	<u>General Fund</u>	<u>Road Fund</u>	<u>Fire Fund</u>	<u>Total</u>
Receivables:				
Taxes Receivables	\$ 5,397	\$ 10,787	\$ 7,182	\$ 23,366
Net Receivables	<u>\$ 5,397</u>	<u>\$ 10,787</u>	<u>\$ 7,182</u>	<u>\$ 23,366</u>

NOTE 5 - CAPITAL ASSETS

The Township has not recorded Capital Assets. U.S. Generally Accepted Accounting Principles requires that governmental units record and depreciate Capital Assets.

NOTE 6 - CONTINGENCIES

Risk Management – The Township of Hudson is exposed to various risks of loss related to property loss, torts, errors, and omissions, employee injuries, as well as workmen's compensation benefits provided to employees. The Township participates in the Michigan Township Participating Plan for general liability, property loss, automobile, professional, public official errors and omissions liabilities. In addition, the Township has purchased commercial insurance for workmen's compensation benefits.

Settled claims for the insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverages obtained through insurance during the past year.

NOTE 7 - CHANGE IN ACCOUNTING PRINCIPLE

Effective April 1, 2005, the Township implemented several new accounting standards issued by GASB:

Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, as amended by Statement No. 36, Recipient Reporting for Certain Shared Non-Exchange Revenues, which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

NOTE 7 - CHANGE IN ACCOUNTING PRINCIPLE (Continued)

Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, as amended by Statement No. 37, Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments Omnibus, which established new financial reporting standards for state and local governments. This statement requires significant changes in the financial reporting model used by local governments, eliminating account groups and utilizing full accrual basis of accounting and the economic resources measurement focus. Another significant change is the Management Discussion and Analysis Section, which provides an overall analysis of the financial position and results of operations and conditions that could have significant effect on the financial position or results of operations.

Statement No. 38, Certain Financial Statement Note Disclosures, which requires certain note disclosures when implementing GASB Statement 34.

NOTE 8 - BUDGET VIOLATIONS:

Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Expenditures that exceeded appropriations by material amounts were as follows:

	Final Budget	Actual	Variance
Fire Fund:			
Public Safety	\$ 16,700	\$ 34,735	\$ (18,035)

Required Supplemental Information

Hudson Township, Michigan

Required Supplemental Information Budgetary Comparison Schedule General Fund For the Year Ended March 31, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 67,492	\$ 67,492	\$ 76,439	\$ 8,947
License & Permits	2,000	2,000	1,785	(215)
State Sources	15,000	15,000	14,526	(474)
Charges for Services	2,200	2,100	1,529	(571)
Interest & Rentals	2,000	2,000	1,871	(129)
Other Revenue	1,000	9,200	9,321	121
TOTAL REVENUES	89,692	97,792	105,471	7,679
EXPENDITURES:				
General Government:				
Supervisor	4,200	4,200	3,850	350
Elections	500	645	643	2
Treasurer	3,600	3,600	3,600	-
Clerk	3,600	3,600	3,600	-
Trustees	10,000	10,000	8,624	1,376
Assessor	7,000	9,400	8,321	1,079
Board of Review	1,000	1,200	2,000	(800)
Buildings & Grounds	25,000	48,000	46,890	1,110
Professional	2,500	1,800	1,320	480
Cemetery	250	250	127	123
Total General Government	57,650	82,695	78,975	3,720
Public Safety:				
Fire Department	1,500	1,000	981	19
Inspections	2,500	2,500	1,989	511
Total Public Safety	4,000	3,500	2,970	530
Public Works:				
Streets, Operating	60,000	36,855	34,503	2,352
Sanitation	2,000	1,500	1,339	161
Total Public Works	62,000	38,355	35,842	2,513
Health & Welfare				
Ambulance	3,500	3,500	3,248	252
Total Health & Welfare	3,500	3,500	3,248	252
Recreation and Culture:				
Park	1,500	1,000	877	123
Total Recreation and Culture	1,500	1,000	877	123
Other Expenditures:				
Other	22,400	22,000	1,884	20,116
Total Recreation and Culture	22,400	22,000	1,884	20,116
TOTAL EXPENDITURES	151,050	151,050	123,796	27,254
EXCESS OF REVENUES OVER EXPENDITURES	\$ (61,358)	\$ (53,258)	(18,325)	\$ 34,933
FUND BALANCE, APRIL 1			83,776	
FUND BALANCE, MARCH 31			\$ 65,451	

Hudson Township, Michigan

Required Supplemental Information Budgetary Comparison Schedule Road Fund For the Year Ended March 31, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 40,000	\$ 40,000	\$ 57,370	\$ 17,370
Interest & Rentals	500	500	577	77
Other Revenue	500	1,300	1,276	(24)
TOTAL REVENUES	41,000	41,800	59,223	17,423
EXPENDITURES:				
Public Works	71,000	71,000	55,301	15,699
TOTAL EXPENDITURES	71,000	71,000	55,301	15,699
EXCESS OF REVENUES OVER EXPENDITURES	\$ (30,000)	\$ (29,200)	3,922	\$ 33,122
FUND BALANCE, APRIL 1			41,260	
FUND BALANCE, MARCH 31			\$ 45,182	

Hudson Township, Michigan

Required Supplemental Information Budgetary Comparison Schedule Fire Fund For the Year Ended March 31, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 28,000	\$ 28,000	\$ 38,258	\$ 10,258
State Sources	250	250	29,678	29,428
Interest & Rentals	600	1,200	1,435	235
TOTAL REVENUES	28,850	29,450	69,371	39,921
EXPENDITURES:				
Public Safety	16,700	16,700	34,735	(18,035)
TOTAL EXPENDITURES	16,700	16,700	34,735	(18,035)
EXCESS OF REVENUES OVER EXPENDITURES	\$ 12,150	\$ 12,750	34,636	\$ 21,886
FUND BALANCE, APRIL 1			48,480	
FUND BALANCE, MARCH 31			\$ 83,116	



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

Board of Trustees
Hudson Township
Naubinway, Michigan

We have audited the financial statements of Hudson Township for the year ended March 31, 2006, and have issued our reports thereon dated June 2, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control structure of Hudson Township. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

In planning and performing our audit of the financial statements, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable condition we noted:

- Lack of Segregation of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness as defined above. However, we believe that the lack of general ledger reconciliations is a material weakness.

Significant Accounting Policies

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of the accounting policies and their application. The significant accounting policies used by Hudson Township are described in Note 1 to the financial statements. As described in Note 7 to the financial statements, Hudson Township changed accounting policies related to financial reporting standards by adopting Statement of Governmental Accounting Standards (GABS Statement) No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments* in fiscal year 2005. We noted no transactions entered into by Hudson Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management.

Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Township’s financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Township, either individually or in the aggregate, indicate matters that could have a significant effect on the Township’s financial process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Hudson Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Comments and Recommendations

Tax Collections

The Township did not disburse tax collections within ten business days of collection. It is recommended the Township distribute tax collections to the appropriate local unit within the ten business day disbursing requirement.

Capital Assets

The Township does not maintain a detail listing of its capital assets. The capital assets of the Township also are not recorded in the accounting records as required by accounting principles generally accepted in the United States of America. To strengthen control over the Township's capital assets and to be in compliance with GAAP, the Township should develop a current listing of capital assets. Each item on the list should be recorded at its historical cost or estimated cost (if historical cost cannot be determined) and depreciated over its useful life. Under GABS Statement No. 34, capital assets are required to be recorded. There should be determinable values of cost, accumulated depreciation, and current year depreciation expense.

Segregation of Duties

In our assessment of the internal control structure of the Township, we noted that bookkeeping duties are handled by one individual including accounts receivable, accounts payable, posting to the general ledger, reconciling, and depositing funds. To maintain a strong internal control system in an organization, one employee should not have responsibility for all phases of a transaction. This increases the risk that errors, omissions, and irregularities will occur and not be detected in a timely manner. Due to the small size of the Township's staff, we are aware that it is not possible to segregate all duties. However, as the Township experiences growth or as responsibilities are shifted or added, segregation of duties should be a goal of management.

Policies

During several discussions with the Township Treasurer we found the Township does not have written policies for accounting procedures and a Township disaster recovery plan. It is recommended the Township prepare and adopt written policies for accounting procedures and a disaster recovery plan.

A minimum capitalization policy of recording items over \$500 (or other dollar threshold established by the Board) should be considered to reduce the number of items depreciated each year. This would reduce time dedicated to this area with minimal affect on operating income.

Conflict of Interest/Competitive Bids

The Township currently has no conflict of interest policy or a competitive bid policy in place. These policies ensure related parties abstain from voting on related issues and allow for competitive pricing on contracts the Township enters into.

Bank Accounts

It was noted in a bank confirmation that the volunteer fire fighters have a bank account utilizing the Townships Tax Identification Number and is not recorded on the Township's general ledger. It is recommended only Township accounts utilize the Township Tax ID Number.

Conclusion

We would like to express our appreciation, as well as that of our staff, for the excellent cooperation we received while performing the audit. If we can be of assistance in implementing any of the above recommendations, please contact us.

This information is intended solely for the use of the Township Board, the cognizant audit agencies and other federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Anderson, Tackman & Company, PLC
Certified Public Accountants

June 2, 2006